NRECA
America's Electric Cooperatives

May 19, 2017

The Honorable Scott Pruitt
Administrator
Environmental Protection Agency
1200 Pennsylvania Avenue, N.W.
Washington, DC 20460

Dear Administrator Pruitt,

The National Rural Electric Cooperative Association appreciated the opportunity to have representatives of our Generating and Transmission Leadership group meet with you recently to discuss several high priority environmental issues.

As a follow up to our conversation, you had asked us to provide additional feedback on several topics, including: 1) economic impacts of the Clean Power Plan on the cooperatives' coal-based units, 2) our suggestions on how to improve the New Source Review program, and 3) recommendations for addressing the impacts of Regional Haze requirements on cooperatives. These topics are addressed in this letter. I've also attached a copy of NRECA's comments to EPA regarding your request for input under President Trump's Executive Order 13777.[1]

CLEAN POWER PLAN VALUE OF LOST CAPITAL RESULTING FROM PROJECTED ELECTRIC COOPERATIVE COAL PLANT RETIREMENTS

According to the EPA's IPM modeling of the Clean Power Plan Base Case and its Rate Case (embodied in EPA's modeling for the proposed Cross-State Air Pollution Rule Update), 4,862 MW of capacity at coal plants owned by electric cooperatives is projected to be retired by 2018. For reliability purposes, cooperatives would need to replace this capacity by either building or purchasing new capacity. The market value of this replacement capacity can be estimated based on projected regional electric generating capacity values. These values represent capacity market prices for regions with organized markets or, for other regions, the incremental revenue above energy margins that would be necessary for a new asset owner to enter the market. By multiplying projected annual $/kW regional capacity values, developed by IHS CERA, with the lost co-op capacity in each region, NRECA estimates the total

[1] NRECA Comments submitted May 15, 2017 to EPA Docket: EPA-HQ-QA-2017-0190: Identification of Regulations for Repeal, Modification or Replacement Under Executive Order 13777

market cost for replacing the 4,862 MW of lost coal capacity to be approximately $3.4 billion over the 2018-2030 period.

Regional Haze Impacts for Cooperatives are Significant

In recent years, EPA has become much more prescriptive by forcing states to impose high cost, low benefit pollution controls to drive the Regional Haze program towards a goal that is still 48 years away. Regardless of the states' extensive analysis and recommendations for their implementation plans, EPA has instead largely rejected the state recommended approaches and imposed the Federal preference for selective catalytic reduction technology to be installed at electric generating units to control NOx emissions. This technology can cost hundreds of millions of dollars per unit while the projected visibility improvements offered by the technology are often imperceptible as compared to what the states' lower cost recommendations would achieve.

In planning for Phase II of Regional Haze, EPA "doubled down" in 2017 by finalizing its regulation and accompanying guidance in ways that further erode state authority over their own programs. We urge EPA to redraft both the rule and guidance as the law intended, place the decision making back in the hands of the states, and allow them the time and discretion to manage their programs cost effectively.

In numerous examples of national rulemaking as well as individual states where EPA has imposed Federal Implementation Plans in lieu of the preferred state approach, NRECA supports the current Administration's decision to hold the litigations in abeyance and reevaluate its approach. Cooperatives face significant compliance burdens unless EPA makes needed changes. These include:

- EPA's Regional Haze rule for Texas and Oklahoma (State of Texas v. EPA, No. 16-60118). Not only does that rule exceed EPA's authority in those two states, but EPA's policy decisions in this rule established precedent that was used when EPA updated the nationwide Regional Haze rules and guidance that were issued in 2017. At a minimum, EPA needs to: 1) revise and decouple the Reasonable Progress Goals from the Long Term Strategy, 2) modify the guidance for interstate consultation requirements for state visibility plans, and 3) revise the rule to again allow states to rely on regional planning organization modeling and documentation.

- EPA's pursuit of a 90-Day Administrative Stay of Certain provisions of the Arkansas Regional Haze FIP. This is of particular concern to Arkansas Electric Cooperative and some distribution cooperatives in Arkansas and Texas where EPA justifies its imposition of high-priced control technologies on a $/ton basis even though it provides minimal visibility improvement – in this case not even perceptible to the human eye.

- In the litigation over EPA's January 2017 final Visibility Rule Revisions and Guidance, multiple parties are developing consolidated briefs. We do support EPA's recommendation to extend the Phase II planning by 3 years and we believe EPA should equally extend the compliance deadline. We have significant concern in this rulemaking with the same issues raised in the State of Texas case (above) as well as: 1) adding to state planning burdens by inserting consultation requirements with Federal Land Manager both before and after public hearings and 2) imposing on states in Phase II to require the most stringent controls for electric generating units that weren't required to adopt them in Phase I.

- In Utah vs. EPA, the litigation focuses on the agency again rejecting the state's plan and promulgating a plan requiring SCR technology even though analysis conclusively demonstrates that EPA's approach would achieve, at most, a 0.1 deciview improvement compared to the state's approach. Yet EPA's approach would increase costs by several hundred million dollars. If implemented, EPA's approach will have dire consequences for the local cooperative whose portion of capital cost ($45-50 million) would exceed their current financing capacity prior to 2025. The FIP deadline for full implementation is mid-year 2021. In Utah, EPA followed the rationale adopted in their policy decisions now under review in the Texas case (discussed above) In fact, EPA under the outgoing administration apparently wholesale discontinued traditional economic evaluations based on a $/ton removal or $/per deciview. Instead, EPA asserted it only determined "affordability" based on whether they believed the cost could be absorbed and the utilities remain in business. For the cooperative, the potential to be mandated to make this size of investment could threaten their viability as it would create severe stress to cash flows currently earmarked to sustain debt service payments on their restructured debt. Time is of the essence for EPA to reevaluate their approach and let the more cost-effective state SIP be adopted.

- In Wyoming, we support the Administrations' recent decision to back the mediated agreement reached for the Laramie River Station. We are asking that the consolidated litigation be put in abeyance until EPA finalizes all of these actions.

EPA should remove New Source Review program elements that impede electric generating unit (EGU) efficiency improvements

EPA may propose standards of performance for EGUs that require evaluation of unit-based heat-rate efficiency measures under revisions to the Clean Power Plan regulations. NRECA has previously filed comments and made suggestions relating to an inadvertent triggering of NSR requirements when undertaking many efficiency measures or improvements. There are numerous examples of EGUs identifying projects that could improve unit efficiency, yet these projects would almost certainly trigger NSR concerns as the program is currently implemented. This means that these projects cannot be pursued.

In 2005, EPA proposed to remedy some of the NSR program difficulties, but that effort was never finished and published as a final rule. NRECA believes that rulemaking held promise and we recommend EPA revisit their 2005 NSR reform proposal as a starting point for making much needed changes to this program.

At a minimum, EPA needs to change the NSR rules to provide substantial certainty that efficiency improvement projects do not trigger a NSR review and do not create a reasonable apprehension of NSR review.

CONCLUSION

Thank you again for the opportunity to meet with you and to provide the electric cooperatives' perspectives on these important issues. Please contact me with any questions or clarification.

Sincerely,

Jim Matheson
CEO, NRECA